Tax-Exempt Foundations Studied

BY ROBERT S. ALLEN and PAUL SCOTT

These multibillion-dollar tax-exempt foundations that Rep. Wright Patman (D-Tex.) has long been investigating are under a new critical scrutiny.

This latest probe is by an unannounced Presidential panel with the mission of finding new sources of revenue to offset the contemplated big tax cut next year.

Heading this panel is Myer Feldman, deputy special counsel to the President, and other members are officials of the President's Council of Economic Advisers, the Budget Bureau, and the Treasury and Justice Departments.

First target of this revenue-seeking panel is the tax-exempt foundations, which have soared from 12,295 in 1952 to more than 46,000 in 1962.

Rep. Patman, veteran anti-trust crusader who is slated to become the chairman of the powerful House Banking Committee, has told the Presidential panel that in his opinion "upwards of several billion dollars in additional revenue can be legitimately obtained by taxing these foundations."

In substantiation of this contention, Patman has submitted a number of detailed examples of foundations he holds warrant being taxed.

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Foremost among them are the Howard Hughes Medical Institute, of which Hughes is the sole trustee with life tenure and power to name his successor; the Gulf Oil Co. Foundation, with assets of more than $32 million, and the Institute for Defense Analyses, one of whose top officials is Richard Bissell, former Central Intelligence Agency authority.

Bissell played an important role in the tragic Bay of Bigs invasion disaster.

In [illegible] memorandum to the Presidential panel analyzing income, expenditures and operations of these foundations, Patman emphatically argues that Congress never intended such organizations to be created for tax-exempt purposes.

The militant Texan also charges that foundations are spending large amounts for "expense accounts," particularly for costly foreign junkets. Patman wants the Internal Revenue Service to thoroughly investigate this practice.

The third voluminous report of Patman's probe of 500 major foundations

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is to be published in a month. It will reveal that these tax-exempt organizations dispersed less than 50% of more than $7 billion they received in the past 10 years.

The study also will assail the Internal Revenue Service for "laxness and irresponsibility" in checking the operations of foundations.

In Patman's memorandum to the revenue-seeking panel, he contends many foundations are properly subject to taxation because "foundation-controlled enterprises possess the money and tax-free competitive advantages to eliminate small businessmen."

The Howard Hughes Medical Institute is cited as a graphic illustration of [illegible] as follows:

"Millions of dollars of rental income received by this institute from the subsidiary, Hughes Aircraft, should be taxed as unrelated business income. Hughes Aircraft had accumulated nearly $77 million in earnings by the end of 1961 without distributing any to its sole stockholder, the institute, and this should be taxed as 'unreasonably accumulated earnings.'

"Hughes Aircraft's accumulated earnings should be considered in determining whether the institute itself has had an unreasonable accumulation of earnings and therefore had violated its tax exemption. The Hughes Medical Institute is not eligible for tax-exempt status for several technical reasons, principally that it is conducting the unrelated business of managing the operations of Hughes Aircraft."

The Gulf Oil Co. Foundation, according to Patman, last year received some $750,000 in dividends alone.

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Its reports disclose that this foundation gave $40,000 to the Pennsylvania Economy League; $25,000 to Harvard University; $14,000 to the Tax Foundation; $15,000 to Harding College; $10,000 to the American Economic Foundation, and $8,000 to the Council on Foreign Relations.

Main source of income of the Institute for Defense Analyses is the Defense Department in the form of grants for studies.

As recorded by Patman, the institute's earnings in 1961 were listed as $3,079,812 in "other income," $11,916 in interest, and $255,877 in contributions. Remarkably, Patman points out, the institute reported "miscellaneous expenses" of $3,079,812—the exact amount of its claimed "other income."

Net worth of the institute is given as $1,431,258. Patman has been informed [illegible] as high as $50,000, and he is seeking a detailed accounting